



Ernie Fletcher
Governor

LaJuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Teresa J. Hill
Vice Chairman

Gregory Coker
Commissioner

June 15, 2006

PARTIES OF RECORD:

Case No. 2005-00471

Louisville Gas and Electric Company / Kentucky Utilities Company

Attached is a copy of the memorandum which is being filed in the record of the above referenced case. If you wish to make any comments regarding the contents of the informal conference memorandum, please do so within five days of receipt of this letter. Should you have any questions regarding the memorandum, please contact Richard Raff at 502/564-3940, Extension 260.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

RGR:v

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File No. 2005-00471

FROM: Richard G. Raff, Staff Attorney 

DATE: June 15, 2006

SUBJECT: Louisville Gas and Electric Company ("LG&E")
Kentucky Utilities Company ("KU")

Pursuant to the Commission Staff's Amended Notice dated June 5, 2006, an informal conference was held at the Commission's offices on June 7, 2006. A list of the attendees is attached hereto.

LG&E/KU made a presentation (copy attached) which included the history and current status of its efforts to obtain approval from the Federal Energy Regulatory Commission ("FERC") to withdraw as a member of the Midwest Independent Transmission System Operator, Inc. ("MISO"), a review of the Kentucky proceedings on that same issue, and a review of the issues in this current case regarding the transfer of functional control of the LG&E/KU transmission assets to the Tennessee Valley Authority to be the Reliability Coordinator and to the Southwest Power Pool to be the Independent Transmission Operator. A discussion was held on the issues that have been raised in the pending case, but which have already been decided by the Commission's May 31, 2006 Order in Case No. 2003-00266. As part of this discussion, LG&E/KU agreed to refile by June 14, 2006 their prepared testimony to eliminate the inclusion of issues that have already been adjudicated in Case No. 2003-00266. The issue of MISO's pending motion to intervene was also discussed, as well as the extent of its interest in the issues in this case. MISO agreed that after LG&E/KU revise their testimony, MISO will file by June 19, 2006 either: (1) a renewed request to intervene, which discusses MISO's interest in the issues as set forth in the LG&E/KU revised testimony; or (2) a withdrawal of its request to intervene.

LG&E/KU indicated that they are attempting to exit MISO by September 1, 2006. They have requested the FERC to rule by July 6, 2006 on both the rehearing issues in the FERC MISO-exit case and their revised market-based rate tariffs. LG&E/KU also requested a final Order by the Commission in this pending case by June 30, 2006. In the event that all of these rulings are not issued by the dates requested, LG&E/KU indicated that their MISO exit would be delayed until December 1, 2006. The attendees also discussed the provisions set forth in the Stipulation which was filed on June 2, 2006.

Attachments

cc: Parties of Record

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS)
AND ELECTRIC COMPANY AND KENTUCKY)
UTILITIES COMPANY TO TRANSFER) CASE NO. 2005-00471
FUNCTIONAL CONTROL OF THEIR)
TRANSMISSION FACILITIES)

=====
June 7, 2006 Informal Conference
=====

Please sign in:

NAME

REPRESENTING

AW Turner

PSC - Legal

Betsy Blackford

DAE

RICHARD RAFF

PSC - LEGAL

RICK LOVEKAMP

LG&E/KU

Jorge Valladares

KY PSC

James Traughber

SKO for LG&E KU

Duncan Crosby

Stoll Keenon Ogle for LG&E/KU

Kendrick Riggs

SKO for LG&E/KU

Beth Cocanougher

LG&E/KU

Mark Johnson (via telephone)

LG&E/KU

Katie Yunker

counsel for the Midwest ISO

DAVID F. BOEHM

KIVC

Beth O'Donnell

KPSC

Jim Blakley

KPSC



**Presentation to the Staff of the
Kentucky Public Service Commission
Informal Conference, Case No. 2005-00471
June 7, 2006**



- Status of Proceedings Before FERC
- Kentucky Public Service Commission Proceedings
- Summary of Reliability Coordinator and Independent Transmission Organization Agreements



Status of Proceedings Before FERC

MISO Exit Proceeding (Docket Nos. EC06-4-000, et al.)

- March 17, 2006: FERC issues order conditionally authorizing LG&E/KU to exit MISO
- April 11, 2006: LG&E/KU submits compliance filing



Status of Proceedings Before FERC (cont'd)

MISO Exit Proceeding (Docket Nos. EC06-4-000, et al.)

- **April 17, 2006:** MISO requests rehearing; Dynegy Power Marketing requests clarification or, in the alternative, rehearing
- **April 28, 2006:** PJM petitions for intervention and files comments; MISO files protest and request for deferred action on LG&E/KU compliance filing
- **May 15, 2006:** LG&E/KU file responsive pleading to MISO protests and PJM comments



Status of Proceedings Before FERC (cont'd)

MISO Exit Proceeding (Docket Nos. EC06-4-000, et al.)

- June 5, 2006: LG&E/KU and MISO file joint letter
- June 6, 2006: LG&E/KU file update letter
- July 7, 2006: Requested date for FERC orders on rehearing and compliance filing



Kentucky Public Service Commission Proceedings



Kentucky Commission Proceedings

MISO Membership Investigation Proceeding (Case No. 2003-00266)

- **May 31, 2006:** Commission issues final order
 - *LG&E/KU authorized to withdraw from MISO and reacquire functional control of their transmission facilities*
- **Goal: LG&E/KU exit MISO by September 1, 2006**



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- Nov. 18, 2005: LG&E/KU file joint application
 - *Requests Commission authority under KRS 278.218 to exit MISO and transfer functional control of transmission assets to LG&E/KU and to TVA and SPP to extent necessary to act as RC and ITO, respectively*
- Dec. 22, 2005: Commission issues order holding proceeding in abeyance pending final order in Case No. 2003-0266



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- **Going forward:**
 - *May 31 Order in Case No. 2003-00266 authorized LG&E/KU to exit MISO*
 - *Steps to achieve TVA/SPP proposal*



Roadmap to MISO Exit

- **June 15, 2006:** LG&E/KU inform MISO whether they will remain in MISO model
- **June 30, 2006:** Commission issues order resolving TVA/SPP proceeding
- **July 7, 2006:** Last date for LG&E/KU to notify MISO of exit; FERC issues final orders on compliance filing and rehearing
- **July 15, 2006:** LG&E/KU provides Commission exit status update
- **September 1, 2006:** Effective date of LG&E/KU exit from MISO



**Summaries of Reliability Coordinator and
Independent Transmission Organization
Agreements**



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- **Under Reliability Coordinator Agreement, TVA:**
 - *Maintains reliability coordination for LG&E/KU's transmission system, consistent with NERC standards*
 - *Performs regional coordination activities*
 - *Approves LG&E/KU system maintenance schedules*
 - *Recommends transmission system upgrades*
 - *Administers Joint Reliability Coordination Agreement ("JRCA") with MISO and PJM*
 - *RC Agreement is a fee-for-service contract*



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- Other key Reliability Coordinator Agreement provisions
 - *LG&E/KU will compensate TVA during the initial four-year term as follows: \$1.3 million for Contract Year 1; \$1.4 million for Contract Year 2; \$1.5 million for Contract Year 3; and \$1.6 million for Contract Year 4*
 - *No “exit fee” if Reliability Coordinator Agreement is terminated*
 - *RC Agreement may be terminated: (a) by mutual consent at any time; (b) by either party upon six months’ notice, effective at the end of the initial term; and (c) by either party for cause upon thirty days’ notice*



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- Under Independent Transmission Organization (“ITO”) Agreement, SPP:
 - *Administers LG&E/KU’s open access transmission tariff. Functions include:*
 - *Processing and evaluating all transmission service requests*
 - *Approving all transmission planning activities, including models, development of planning criteria, plans, studies, and methodology for calculating Available Transfer Capability*
 - *Regional transmission planning and approval*
 - *Certain Balancing Authority functions, such as approving interchange transactions.*



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- **Other key ITO Agreement provisions**
 - *LG&E/KU will compensate SPP (as the ITO) \$3.3 million per year for first four years*
 - *No “exit fee” requirement if ITO Agreement is terminated*
 - *Agreement may be terminated: a) by either party, effective at end of Initial Term, upon 180 days notice to other party; b) by mutual agreement of parties at any time during Term; or c) immediately upon prior written notice in event of material breach, gross negligence, bankruptcy, or the like. Unless terminated at end of Initial Term, the ITO Agreement automatically continues for successive one-year terms.*



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- Does hiring a Reliability Coordinator constitute a transfer of control of LG&E/KU's transmission system under KRS 278.218?
- Does contracting with an Independent Transmission Organization to administer LG&E/KU's OATT constitute a transfer of control of any utility assets under KRS 278.218?



Stipulation between LG&E/KU,
AG, and KIUC



Kentucky Commission Proceedings

TVA/SPP Proceeding (Case No. 2005-00471)

- June 2, 2006: LG&E/KU, AG, and KIUC Stipulation
 - *Supports LG&E/KU's joint application in this proceeding and requests Commission expeditiously review and approve application without hearing by June 30, 2006*
 - *Recommends Commission issue order:*
 - *Approving TVA/SPP proposal*
 - *Clarification of rate recovery of MISO exit fee consistent with May 31, 2006 Order*
- LG&E/KU requests that Commission issue final order in this proceeding by June 30, 2006, approving terms of Stipulation



Roadmap to MISO Exit

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